

ALASKA LEGISLATURE COMMITTEE / HOUSE / 2

514 SCOM 115: HOUSE/SEN. SP. COMM. SALE ROYALTY GAS 1977-78 514

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Senate in October 1975, S. 2310, and the same type of language now finds expression in the most recent deregulation legislation offered in the current Congress by Senators Pearson and Bentsen, S. 256.

I do not think the language of the contracts to be altogether clear, however, that Section 6.1 becomes inoperative in the event of Congressional deregulation. If it is the intent of the contracting parties that "flow through" language in a deregulation bill would effectively eliminate the Section 6.1 proviso, then I would suggest that an appropriate letter be obtained and made a part of the contracts before they become effective.

2. Even if Section 6.1 is clarified as suggested, you must understand that Section 6.1 will still subject the State's royalty sales to FPC rate regulation, and such will continue unless and until the Congress enacts appropriate deregulation legislation.

While the State has uniformly and steadfastly maintained that its sales of royalty gas are not subject to direct regulation by the Federal Power Commission because the State is not a person within the meaning of the Natural Gas Act (and I agree with this position), the State does by these contracts consent to indirect rate regulation by the Commission by conceding that the State's sale price is limited to that amount which the Commission will permit the buyers to retain in their jurisdictional rates.

3. At this time, the State cannot determine its sale price, or anticipated revenues at time of first delivery. Section 6.2 does not yield a present price, for there are no FPC-set rates for Alaska gas at this time. Neither Section 6.3 nor 6.4 yields a present price, for their conditions precedent (deregulation) have not occurred. I am at a loss, therefore, to advise the Committee on the sale price which will be applicable at the time of first delivery. If the status quo prevails through the time for first delivery, I assume -- although the contract is silent on the point -- that the buyers and the State would agree to an interim price which would be paid to the State, subject to refund.

4. You should note that the pricing mechanism agreed to in Article VI results, in every reasonably probable circumstance, in the State's sale price being determined by parties other than the State. If federal regulation continues, or if deregulation legislation is not appropriately drafted, the FPC sets the rate for the State. If deregulation occurs, before or after first delivery, the sales price negotiated by private firms making comparable sales will determine the State's sales price.

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5. I cannot guess what rate the FPC will set for private sales of natural gas from Prudhoe Bay, but the prospects for a relatively low rate -- because the gas is associated and many costs can be allocated to oil, and because the size of this discovery and these reserves may operate to distort initial well-head rates downward -- are not to be ignored. It will, in my judgment, be easier for the FPC to find reasons why a private seller's rate should be low than it would be for the Commission to deny to the State public funds for public needs. Thus, the contract tying arrangement to private firms' prices -- not yet negotiated -- may deprive the State of a strong argument for adequate prices: namely, that State revenues will be public monies devoted to public needs and public uses, and that, therefore, the State's sales rate should not be judged by traditional FPC concerns of windfall profits to private firms.

6. In Article VI, redetermination rights under Section 6.5 are not clearly granted if deregulation occurs prior to first deliveries. Such rights should exist to protect the State adequately over the twenty-year term of these agreements, and should be provided in Section 6.3, or through re-wording of Section 6.5. Incidentally, re-determination downward at the buyer's request, as permitted in Section 6.5, is not frequently seen. If Section 6.5 is modified, revision to eliminate the possibility of price reductions in the future should be explored.

7. Under the pricing scheme in the contracts, the probable mechanism for Federal Power Commission review of the State's royalty sales rate will be either (a) in the various pipeline rate cases where the cost of purchasing gas from the State is submitted to the Commission as a recoverable item by the pipeline in its resale rate structure; or (b) in a producer sales proceeding where one of the Prudhoe Bay working interest owners requests FPC sales authority; or (c) a rule-making procedure to determine as Alaska ceiling rate for producer sales. The State will be forced to seek intervention, and participate forcefully if allowed to intervene, in one or more of these proceedings in order to have an opportunity of making a direct presentation to the FPC on the appropriate rate level for sales by the State.

Are these problems sufficient to condemn the contracts as improvident? To some -- those whose sale concern is specificity of price and certainty of revenue -- the answer will be "Yes". But that answer may apply too narrow a standard if -- as may well be true -- there are no reasonable pricing alternatives available to the State.

If all prospective pipeline buyers, present and future, would insist on a pricing structure similar to the one in these contracts, then the alternative to rejection of these contracts

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is the alternative of having no contract for the sale of the State's royalty gas. Viewed in this light, the pricing structure before you may be unpalatable, but it may be necessary. If you say "no" to this pricing structure, you may really be saying that the State should not contract at all; that the State should play a less affirmative role in the routing decision; and that the State can strike a better bargain for its gas after the Federal decisional process has run its course.

This choice is yours to make. It requires a broader understanding of the State's goals and needs than I possess, and accordingly, I would be foolish to attempt to recommend a course of action to you. The best I can do is make you aware of the problems, so that your decision will be an informed one.

I would add two footnotes. If these contracts are approved, appropriate deregulation legislation by the Congress becomes terribly important to you. If Alaska gas is deregulated, most of your pricing problems disappear. On the other hand, if deregulation does not occur, the FPC becomes terribly important to you. That agency's pricing regulations will directly impact on your revenues. In the absence of deregulation, the State will be required to become an active, and effective, advocate at the FPC.

* * * * *

As a final area of general discussion, I would like to call the Committee's attention to several of the provisions in the contract which I think are significant. I do not classify these provisions as being either "good" or "bad" since, in most instances, one's perception of the provisions will depend upon considerations other than legal analysis.

In Article XI, Section 11.4, it is provided that the Governor of Alaska may give notice to the buyers of his decision to support a project other than the trans-Alaska pipeline, and if the Governor does so, with appropriate notice to the buyers, then the newly selected project will be considered the "pipeline" for the purposes of the contract. The buyers need not concur in this change in the State's official position, and if they do not agree, then they are given the right to terminate the contracts.

Second, the selection by the State of Tenneco and Southern as buyers of a portion of the State's royalty gas brings a promise of support by those two organizations of the trans-Alaska gas pipeline system. The involvement, and support, of these two concerns adds a new element to decisional process in Washington with respect to the selection of the routing of a North Slope gas transmission system.

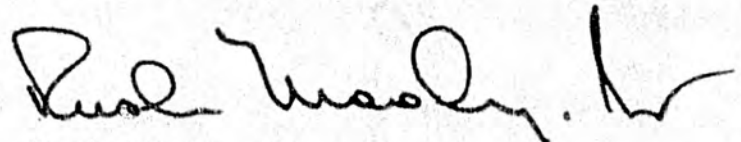
Third, it should be noted that the contracts grant certain options on State royalty gas which are triggered if the State effects a withdrawal of all or any portion of the gas committed under these contracts in order to satisfy in-State needs. The options are not exercisable unless the gas covered thereby is surplus to the needs of the State, and unless the surplus gas is to be transported to market through the trans-Alaska pipeline system. I do not find the option provisions objectionable, but I felt that they were significant enough to require separate mention.

Finally, the contract does not speak to one element of revenue loss that the State will probably sustain by reason of an in-kind taking. The severance tax payable on the State's royalty gas if the State did not take in kind will probably be lost if the State does take in kind. No treatment of this problem appears in the contract.

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I will stand ready to respond to such questions as the Committee might have during its hearing on February 2, 1977, and if there are any matters contained in this letter or in its attachment which are not clear, I trust that I will have an opportunity to speak to any such problem at that time.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Rush Moody, Jr.", with a stylized flourish at the end.

Rush Moody, Jr.

RM:bw
Attch.

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ATTACHMENT "A"

SUMMARY OF MAJOR CONTRACTUAL PROVISIONS

A. "General Terms and Conditions"

Section 1 defines the terms essential to an understanding of the contract. The definitions are standard, and require no comment except to note the definition of the term "domestic and industrial needs of the State of Alaska" as set forth in Section 1.11. This term is defined to mean "those present and projected residential, commercial and industrial uses for gas within Alaska as determined by the Alaska Royalty Oil & Gas Development Advisory Board in accordance with AS 38.05-.183(d)."

This definition is critical to the structure of the royalty gas sale inasmuch as it forms the basis for the State's rights of withdrawal of royalty gas from the contract as set forth in Article III of the various royalty gas sales agreements.

Section 2 delineates the respective responsibilities of buyer and seller for damage or injury occurring in connection with the movement of royalty gas. The State is responsible prior to delivery to the buyers, and the buyers are responsible after receipt of the gas, except that while the gas is being processed by or on behalf of the State, the buyers are not responsible.

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The contract does not fix responsibility, as between buyer and seller, for the processing stage.

Section 3 governs metering of gas sold under the contract; the provisions which essentially require the buyers to install necessary meters to measure accurately the gas purchased under the agreement, but which permit the State to install check meters and otherwise periodically review the accuracy of the purchaser's metering activities, are standard and reasonable. In one respect these provisions are more favorable to the State than might be expected; the contract calls for correction of inaccuracies, when they occur, for a period extending back one-half of the time elapsed since the date of last calibration of the metering equipment. Frequently, gas sales contracts limit the period of time of recalculation, with it being fairly standard that such period is limited to a correction period of two weeks, or at most one month.

Section 4 contains standard provisions relating to the definition of the unit of volume sold.

Section 5 sets forth technical standards for gas measurement, and is standard in the industry.

Section 6, dealing with billing and payment, provides for the rendition of monthly statements, by the 15th day of each

month, setting forth the amount of gas delivered by the State and purchased by the buyers during the preceding calendar month, and for payment to be made by the 25th day of the calendar month in which the run statement is rendered. These provisions are standard.

Section 7, entitled "Receipt of Available Gas," imposes upon the buyer the obligation to proceed diligently to seek such authorization as required to receive gas then available for delivery by the State. As will be discussed later, the intent of Section 7 with respect to Tenneco Alaskan, Inc. and Southern Natural Gas Company is not altogether clear since neither of these buyers appears to be so situated that an authorization "to receive gas" would be required. Neither of these two buyers is in the present posture of seeking certificates permitting the transportation of royalty gas, or permitting construction of facilities to transport gas in interstate commerce and, accordingly, Section 7 is probably inappropriate in their contracts.

Section 8 contains a standard warranty of title by the State.

Section 9, force majeure, permits either party to the contract to suspend its performance if reasons force majeure supervene. The force majeure provisions are standard, but it is

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interesting to note that, in a case such as this where the State is a contracting party, the State can effectively relieve itself of any obligations under the contract by the imposition of "future rules, regulations, orders, laws or proclamations." The State can thus create a force majeure situation through its own action, and if the effect of force majeure is to require suspension of the State's performance under the contract, the State incurs no liability by reason of nonperformance to the buyers. Conversely, if the State, by future rule, regulation, order, law or proclamation makes it impossible for the buyers to perform, the buyers have no liability for nonperformance to the State.

Section 10 makes the contract subject to all present and future valid laws and valid regulations of the United States, the State of Alaska or any duly constituted agency thereof. This is a standard provision.

Section 11 permits assignment of rights under the contract; it is expressly provided that either buyer or seller may assign its rights under the agreement to a security holder without such security holder incurring personal obligation under the contract, and without such security holder being required to qualify to do business in the State of Alaska.

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Section 12 is not a standard contractual provision normally encountered in gas contracts. Section 12 provides, in essence, that if a producer of gas, of which the State's in-kind royalty gas is a part, enters into a contract of sale which contains provisions more favorable to the seller than the terms and conditions set forth in Sections 3, 5 and 6 of the "General Terms and Conditions," then the State has the option to include such more favorable terms and conditions within this contract "within 90 days after approval by the Federal Power Commission of said working interest owner's contract for the sale of its gas." The limitation of the State's right to move to more favorable terms is, as noted, limited to changes in the sections of the State's contract dealing with metering, measurement, and billing, and since these provisions are fairly well standard, it is doubtful that Section 12 will be of consequence. It should also be noted that if deregulation of new gas occurs, and if Prudhoe Bay gas is included within the definition of new gas so that the producer sales of that gas never become subject to FPC review, then Section 12 becomes meaningless inasmuch as the State would never have a matured right to demand favorable changes in Sections 3, 5 and 6.

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Section 13 contains miscellaneous provisions to aid in the interpretation and application of the contract. The provisions of Section 13 are not remarkable.

B. "Royalty Gas Sales Agreement"

Three separate "Royalty Gas Sales Agreements" have been negotiated, but all are identical in terms, with the exception that Tenneco Alaskan, Inc. is the buyer of 50 percent of the State's royalty gas covered by the total sales transaction, Southern Natural Gas Company is the buyer of 25 percent, and El Paso Natural Gas Company is the buyer of 25 percent. Since all contracts are identical, the following summary of the provisions of the El Paso contract will apply to the others also.

Article I sets forth the mutual promises of buyer and seller each to support actively and seek before appropriate authorities the ultimate selection and implementation of a trans-Alaska gas pipeline system. For purposes of this article, "pipeline" means a large diameter gas pipeline commencing at Prudhoe Bay, crossing Alaska in approximately the same route as the present trans-Alaska pipeline system oil pipeline, and terminating in the Prince William Sound area.

Article II, denominated "seller's royalty gas," covers several matters: Section 2.1 sets forth the State's warranty of

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its right to take royalty gas in kind, and its royalty share as being 12-1/2 percent. The leases identified in Exhibit A to the agreement set forth the specific acreage and royalty shares covered by the contract. If the State is prevented by federal action from taking its gas in kind, the gas sales agreement shall be void. [It should be here noted that Exhibit A was not furnished to me for review; I have assumed it to be no more than a listing and description of those State leases from which royalty gas will be sold under this contract.]

Section 2.2 provides that in addition to the sales price provided for elsewhere in the contract, the State will be reimbursed for the State's pro rata share of costs attributable to "the preparation and transportation of gas to be delivered hereunder." These costs are identified as being those costs which the State may incur as a result of its election to take its gas in kind, and which costs would not have been incurred if the State had not elected to take the royalty gas in kind.

Section 2.3 provides, however, that if the buyer is not able to include within its jurisdictional cost of service as determined by the Federal Power Commission, the cost reimbursement provided for in Section 2.2, then the buyer may terminate the gas sales agreement six months after giving notice of termination. If the

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right of termination is exercised, the buyer must nonetheless reimburse the State for those costs identified in Section 2.2 which become due and payable by the State prior to termination.

Article III governs the quantity of gas to be sold under the sales agreement. The structure of this article is as follows:

Section 3.1 establishes the State's agreement to sell 25 percent of seller's royalty gas available at the prescribed delivery points. (The Southern contract also calls for 25 percent of seller's royalty gas, while the Tenneco contract calls for 50 percent of the State's royalty gas.)

Section 3.2 establishes the base volume of gas to be sold by the State and purchased by the buyers during the term of the gas sales agreement. For El Paso, the base volume may be less than, but under no condition shall it be in excess of, 650 Bcf. The same base volume applies in the Southern contract, while the Tenneco contract specifies a maximum base volume of 1,300 Bcf.

Sections 3.3 and 3.4 relate to the right of the State to withdraw from the contract certain volumes to meet the present and future needs of the State. The schedule of reductions is as follows:

From date of first delivery through the fifth anniversary thereof, the State has the right to reduce the

quantity of royalty gas otherwise available for sale under Section 3.1 by up to and including 25 percent.

Commencing on the fifth anniversary date of first delivery and continuing through the tenth anniversary date thereof, the State has the right to reduce the quantity of royalty gas available for sale under Section 3.1 by up to and including 50 percent.

Commencing on the tenth anniversary date of first delivery and continuing through the 15th anniversary date thereof, the State has the right to reduce the quantity of royalty gas available for sale under Section 3.1 by up to and including 75 percent.

Commencing on the 15th anniversary date of first delivery and continuing until termination of the agreement, the seller has the right to reduce the quantity of royalty gas available for sale under Section 3.1 by up to and including 100 percent.

Reductions by the State of the quantity of royalty gas available for sale and delivery shall not become effective until after 12 months have elapsed from the date that the State gives written notice to the buyers of its desire to reduce deliveries.

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It is further provided that the State may change the percentages set forth above at any time during the term of the gas sales agreement, but such changes cannot become effective prior to the expiration of 24 months following the State's written notice to the buyer of its modification of the percentages.

Section 3.5 limits the State's rights of withdrawal of royalty gas volumes by stating that the rights of the State "shall be for the sole purpose of the State meeting the intra-state domestic and industrial needs of the State of Alaska" It will be recalled that the phrase "domestic and industrial needs of the State of Alaska" is specifically defined in the "General Terms and Conditions." The right of the State to withdraw gas from the contract for certain uses is further explained by the following provision in Section 3.5:

"This provision shall not limit the right to export from the State any products manufactured from said gas."

Section 3.6 requires the State to reduce, pro rata, deliveries to all three purchasing companies in the event that a State decision to withdraw gas from any of the contracts is made.

Section 3.7 has the effect of granting to the buyers an option on State royalty gas other than that produced under the leases identified on Exhibit A to the gas sales agreement. Under

the provisions of 3.7, if the State in fact withdraws royalty gas to meet State needs and if, during the term of this agreement and five years thereafter, the State has additional royalty gas which is surplus to State needs, and which will be transported by a trans-Alaska pipeline, then the State agrees to offer to sell to the buyers under the provisions of this agreement (except as to price and term) such additional and excess royalty gas. The option is granted to the three purchasers ratably. As to such "option gas," the price to be paid is the highest price available to the State for such gas from any other interstate bona fide purchaser; if there are no other such purchasers, the price for such "option gas" will be the price then being paid under the instant gas sales agreement.

Under Section 3.7(b), an additional right of first refusal is granted to the buyers. If royalty gas becomes available to the state which, in the State's sole discretion, is determined to be surplus to the intrastate domestic and industrial needs of the State of Alaska, the buyers under the instant agreement are given a right of first refusal to purchase additional royalty gas from the State to the extent of one-half times the volume that the State's exercise of its rights of withdrawal under Sections 3.3

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and 3.4 in fact diminishes the amount of gas the buyer would otherwise have purchased and received under the instant agreement.

Section 3.8 permits the State to take and dispose of its royalty gas produced under the leases identified in Exhibit A at any time after the effective date of the instant agreement and prior to the time of first deliveries hereunder; the State may utilize, market or otherwise dispose of its royalty gas in any manner it chooses, at its own expense, so long as such taking or disposition does not prevent the State from making available for sale to the buyers on the date of first deliveries the quantity of gas committed under the contract.

Section 3.9 commits the State to the burden of advising the buyer at the beginning of each calendar year its best estimate of volumes which will be available under the agreement during each calendar year of the next succeeding five calendar years.

Section 3.10 expresses the agreement of buyer and seller to cooperate in minimizing "any charges levied on gas liquefied and transported from Alaska to the contiguous 48 states."

Section 3.11 provides that if the State exercises its rights of withdrawal of gas from the agreement, then the State will reimburse the buyer for a percentage of any then undepreciated investment made by the buyer in any facilities upstream of the

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pipeline. The percentage of reimbursement is the percentage that the State's reserved gas is of the total gas which otherwise would have been sold to the buyer under the agreement.

Article IV of the royalty gas sales agreement deals with delivery points and delivery pressures. Section 4.1 provides that the State's royalty gas shall be delivered at the point where the working interest owners of the leases make delivery of gas to their purchaser, or at any other point mutually agreed upon by the buyer and seller under this agreement.

Section 4.2 provides that if the State is required to take delivery of its royalty gas at a point upstream from the delivery point determined under Section 4.1, then the buyer under this agreement is required to accept delivery at the point where the State receives its royalty gas.

In Section 4.3, it is provided that gas sold and delivered by the State under this agreement shall be received by the buyers at the same pressure as the pressure the working interest owners deliver their gas to their purchasers, or at the pressure the State receives its gas from the working interest owners if delivery is made upstream of the specified delivery point.

Section 4.4 reserves to the State the right to receive all liquids removed from the gas prior to its delivery to the

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pipeline, whether the liquids are removed before or after delivery of the gas to buyer.

Article V of the royalty gas sales agreement specifies that the gas delivered by the State shall conform to the quality specifications applicable to the gas sold by the working interest owners at the same delivery point.

Article VI of the royalty gas sales agreement is concerned with price. Three alternate methods of determining the sales price are set forth in Sections 6.2, 6.3 and 6.4. Price redetermination rights are set forth in Section 6.5. Irrespective of which section governs the manner of establishing price, the sales price is subject to two important limitations:

Section 6.6 requires that the sales price reflect 1,000 Btu's per cubic foot, and if the heating value of the gas actually delivered is either greater than or less than 1,000 Btu's per cubic foot, then the price will be adjusted upward or downward.

Secondly, and more importantly, Section 6.1 sets forth an absolute upper limit on the price paid to the State. It is there provided that the price paid the State shall never be higher than the price which the buyer is permitted to retain in its jurisdictional

resale rates "so long as such rates are subject to regulation by the Federal Power Commission"

The four alternative methods of pricing are as follows:

Section 6.2 provides that if at the time of first delivery of gas, the price of gas purchased under the contract is subject to FPC regulation because of the Commission's authority to regulate resale rates, then the initial price to be paid shall be the highest rate allowed by the Commission to be paid by any interstate gas purchaser to any working interest owner in the leases identified in Exhibit A under contracts where at least 50 Bcf of gas are sold. Thereafter, the price to be paid would change in accordance with the applicable and governing portions of the rules and regulations of the Federal Power Commission. In the event any producer sells gas from the leases identified in Exhibit A at a price higher than the generally applicable FPC ceiling rates, through utilization of FPC special pricing procedures, then the State sales price would escalate to that higher price. In no instance will the State receive less than the price paid producers for their gas from the same reservoir for same or similar sales in interstate commerce.

Section 6.3 provides that if at the time of first deliveries of gas under the agreement the price of gas sold from the leases

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identified in Exhibit A is not regulated by the FPC, then the initial price for gas delivered under the agreement shall be the highest price being paid by any interstate gas purchaser for gas under contracts of at least 50 Bcf and produced from the leases identified in Exhibit A.

Section 6.4 deals with the eventuality of deregulation at the federal level; if the FPC ceases to exercise jurisdiction over interstate sales for resale after having once commenced jurisdiction, and if deregulation is in such form that it prevents the FPC from excluding the price the buyer pays under this agreement from its cost of service, then the State may elect, by the giving of written notice, to call for redetermination of the sales price as permitted in Section 6.5.

Section 6.5 sets forth redetermination rights of both buyer and seller. Each party has the option to cause the price being paid for gas sold under the agreement to be redetermined every 12 months, such redetermination to be effective on the anniversary of such redetermination. If either party requests redetermination, the parties shall attempt to agree on a new price, and in doing so shall observe the following: The redetermined price shall be the higher of (1) the highest price being paid for gas sold in interstate commerce from Prudhoe Bay of Alaska under a

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contract selling at least 50 Bcf of gas executed in the previous 12 months, or (2) the highest price being paid under a renegotiation or redetermination clause of any contract for gas sold in interstate commerce from the North Slope covering the sale of at least 50 Bcf of gas. If there are no comparable contracts executed in this one year period, or no contracts under which the price has been renegotiated or redetermined, then the parties are to attempt to agree to a new price, but failing this, the matter will be submitted to arbitration as provided in Article VII of the royalty gas sales agreement. In no event shall the redetermined price be less than the price being paid to the State immediately preceding the initial redetermination.

Article VII of the royalty gas sales agreement covers arbitration procedures. Any dispute arising under the agreement can be settled by arbitration if either party requests arbitration. Normal arbitration procedures are set forth, whereby each party names one arbitrator and the two so named select a third. The action of a majority of the board of arbitrators and their decision on matters submitted to them for adjudication shall be final and binding on the parties.

Article VIII of the agreement specifies that the agreement shall become effective upon execution and approval, and shall

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continue for twenty years from the date of first deliveries or until the base volumes of gas set forth in Section 3.2 have been delivered, whichever is earlier. Earlier termination can occur if, for any reason, a decline in production is sustained to the extent that further production of gas would no longer be profitable for the State, or further operation of the transportation facilities would no longer be profitable to the buyer.

Article IX reserves certain rights to the State. The State retains the right to process the gas or have the gas processed before and/or after delivery to buyer for the recovery of liquefiable hydrocarbons other than methane; the State agrees that such processing shall not reduce the heating content of the residue gas below 1,000 Btu's per cubic foot, and the State agrees to reimburse the buyer for all transportation charges, liquefaction charges and regasification charges attributable to volumes removed by processing, including fuel and shrinkage.

Article X of the royalty gas sales agreement specifies the form of notices to be used in those instances where formal notification is required by the agreement.

Article XI specifies certain "conditions precedent." First, the buyer has no obligation to perform any of its undertakings in the agreement, other than its agreement to support the government's

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selection of a trans-Alaska pipeline, unless and until all necessary government approvals for building, construction and operation of the pipeline are granted. The only exception here is that any costs incurred by the State by reason of the State's election to take its royalty in kind shall be reimbursed by the buyer as provided in Section 2.2.

Second, if all necessary regulatory approvals have not been issued and accepted by December 31, 1978, either party to the agreement may thereafter terminate the agreement by giving 10 days written notice.

Third, after approval of the agreement by concurrent resolution of a majority of each house of the Alaska State Legislature, the buyer is to proceed with diligence in the filing and prosecution of such pleadings and applications with the FPC as may be required to obtain all necessary rate, tariff and certificate authorizations related to the buyers' obligations under the agreement.

Fourth, it is provided in Section 11.4 that prior to the time that a Federal Power Commission order granting a certificate of public convenience and necessity to the pipeline becomes final and nonappealable, the Governor of the State may give written notice to the buyer of his decision to support a project other than the trans-Alaska pipeline as defined and identified in the

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agreement. Such notice is not a default by the State under the agreement, but if the buyer decides not to concur in the Governor's change of position, then the buyer may terminate the agreement in its entirety. If the buyer agrees to support the project designated in the Governor's notice, the new project shall be considered the "pipeline," and the agreement remains in force.

Fifth, the royalty gas sales agreement may be terminated by directive of the Governor and service of notice on the buyer if the Federal Power Commission denies the El Paso-Alaska application in Docket No. CP75-96, or if the Commission grants a certificate of public convenience and necessity to a project or system other than the "pipeline" as defined in the agreement.

Finally, it is stipulated that the agreement shall not take effect until approved by concurrent resolution of a majority of each House of the Alaskan Legislature.

Article XII incorporates the general terms and conditions and Exhibit A into the agreement and makes them a part of the agreement for all purposes.



21-a

STATE OF ALABAMA

JERE BEASLEY
LIEUTENANT GOVERNOR
MONTGOMERY
36130

January 14, 1977

TELEPHONE
AREA CODE 205
632-3492
632-3493

Honorable Lowell Thomas, Jr.
Lieutenant Governor
State of Alaska
Pouch "AA" State Capitol Building
Juneau, Alaska 99811

Dear Lowell:

Since the recent announcement by the State of Alaska to sell its surplus royalty natural gas for distribution to the lower 48 states, I have met with officials of Southern Natural Gas Company to discuss this matter. I was pleased to learn of this large new supply source of natural gas that will be available for delivery within the next several years to our part of the nation. This additional gas will be most important to our residential, commercial, and industrial sectors.

As we now find ourselves in the midst of an ominous and deepening natural gas shortage in the lower 48, I am firmly convinced that we must recognize the seriousness of its impact upon the nation's economy as well as to the health and comfort of millions of our citizens. It is incumbent upon all of us in government that we recognize this and act affirmatively to insure that our consumers will have the reassurance of adequate natural gas supplies.

Our nation should not have to depend on imported oil. It stands to reason that the greater the proportion of our total energy supply that domestic natural gas makes up, the lesser the proportion imported oil will make and, therefore, the lesser OPEC leverage on our foreign policy.

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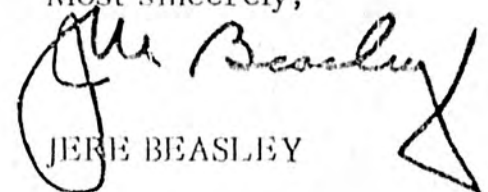
Honorable Lowell Thomas, Jr.
January 14, 1977
Page 2

Expeditious development of the domestic natural gas reserves of Alaska for transportation to the lower 48 states appears to be our best hope if we are to attain a timely degree of self-sufficiency in our energy needs. Accordingly, I endorse your state's proposal to sell a portion of Alaska's surplus royalty natural gas to Southern Natural Gas Company, the major supplier of natural gas to Alabama.

Our state will support efforts to obtain these new gas supplies for our area of the nation. If we in Alabama can be of assistance as this matter receives further consideration, please let me know.

With best personal regards, I am

Most sincerely,


JERE BEASLEY

JB:cw

TELEGRAM

RCA ALASKA COMMUNICATIONS, INC.
PHONE: 583-6440
JUNEAU, ALASKA 99801

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PMS SENATOR JOHN RADER CHAIRMAN ROYALTY GAS CONTRACTS

REVIEW COMMITTEE **1139** POUCH V

JUN 99811

JANUARY 27, 1977

BASED UPON PREVIOUS ALASKA LEGISLATIVE HEARINGS HELD LAST YEAR,
AND CONSIDERABLE ADDITIONAL INFORMATION ACCUMULATED SINCE THEN,
THE ALASKA CHAPTER AGC OF AMERICA, INC. HAS CONTINUALLY
SPONSORED AN ALL-ALASKA GAS PIPELINE ROUTE, AND SPECIFICALLY
THAT PROPOSAL PRESENTLY CONSIDERED BY EL PASO. IN LIGHT OF
THIS, WE BELIEVE THE HEARINGS WHICH ARE TAKING PLACE JANUARY
31 THROUGH FEBRUARY 2 NEXT WEEK WILL CONFIRM OUR ACTIONS
WE DO, HOWEVER, URGE THAT YOU ATTEND THESE HEARINGS AND
WE INTEND TO HAVE A REPRESENTATIVE DO LIKEWISE IN ORDER THAT
WE MAY ALL BE FINALLY ASSURED THAT THE ABOVE DECISIONS WERE
SOUND. IN ANY EVENT, WE ALSO URGE YOUR PROMPT DECISION ON
THE GOVERNORS ROYALTY GAS ALLOCATION CONTRACT.

GEORGE E. SMITH, MANAGER

ALASKA CHAPTER

ASSOCIATED GENERAL CONTRACTORS

AGO 800718

TELEGRAM

RCA ALASKA COMMUNICATIONS, INC.

PHONE: 586-6440

JUNEAU, ALASKA 99801

#

21.6.1

02003 ANCHORAGE AK 151 02-37 943A AST

1977 FEB 7 PM 1

PMS SENATOR JOHN RADER CHAIRMAN ROYALTY GAS CONTRACTS REVIEW
COMMITTEE ³³⁴ POUCH V
JUNEAU AK 99811

FEBRUARY 7, 1977

AT THE OUTSET OF YOUR HEARINGS WITH RESPECT TO THE ROYALTY
GAS CONTRACTS NEGOTIATED BY THE ADMINISTRATION, WE COMMUNICATED
OUR PREVIOUS ACTIONS AND ASKED THAT YOU CAREFULLY OBSERVE AND
ANALYZE THE TESTIMONY CONSIDERED, AS WOULD OUR ORGANIZATION.
AFTER MUCH TECHNICAL TESTIMONY, WHICH WAS OFTEN CONTRADICTORY,
WE WOULD STILL URGE YOU TO SUPPORT AND APPROVE THE GOVERNORS
ACTIONS. WE PREDICATE THIS ON THAT TESTIMONY WHICH SEEMED TO
BE IN PREFONDERANCE, AS WELL AS PERSONAL ASSURANCES FROM THE
ADMINISTRATION OF ITS INTENTIONS. THIS, COUPLED WITH ALASKAS
CONGRESSIONAL DELEGATIONS ADVICE, INDICATED IT IS WISE TO
SUPPORT SUCH ACTION. WE THEREFORE URGE THAT YOU DO SO
AND THEREBY INDICATE TO THE LOWER 48 AND ALL ITS CONGRESSIONAL
DELEGATES OUR ALASKAN SOLIDARITY, AS WELL AS OUR INTENTIONS TO
FIGHT TO THE LAST-DITCH EFFORTS TO EFFECT AN ALASKAN GAS LINE
ROUTE, BEST EPITOMIZED AT THIS TIME IN THE EL PASO PROPOSAL.

GEORGE E. SMITH, MANAGER
ALASKA CHAPTER
ASSOCIATED GENERAL CONTRACTORS

AGO 800719

TELEGRAM

ALASKA ALASKA COMMUNICATIONS, INC.

PHONE: 584-6440
JUNEAU ALASKA 99901

21-C

1977 JAN 27 PM 9 50

02123 NL ANCHORAGE ALASKA 168 01-27 500P AST

PMS HON JOHN RADER SENATE PRESIDENT

JUN

1222

THE ANCHORAGE CHAMBER OF COMMERCE BOARD OF DIRECTORS WOULD
RESPECTFULLY REQUEST THE FOLLOWING RESOLUTION TO BE READ
IN OFFICIAL SESSION OF THIS STATE LEGISLATIVE BODY.

" WHEREAS AN ALL ALASKAN GAS PIPELINE WOULD BE IN THE
BEST ECONOMIC INTEREST OF THE STATE OF ALASKA
AND ITS CITIZENS, WHEREAS THE ANCHORAGE CHAMBER OF COMMERCE
IS ON RECORD IN SUPPORT OF AN ALL ALASKAN GAS PIPELINE,
WHEREAS, THE ALASKA STATE LEGISLATURE IS PRESENTLY CONSIDERING
THE MERITS OF A ROYALTY GAS CONTRACT APPROVED BY THE STATE
OIL AND GAS ADVISORY BOARD. WHEREAS, THE EXISTENCE OF A
ROYALTY GAS CONTRACT SUPPORTED BY THE PEOPLE OF ALASKA
WOULD BE AN AID TOWARDS THE ULTIMATE APPROVAL OF AN ALL
ALASKAN GAS PIPELINE NOW
THEREFORE, BE IT RESOLVED THE ANCHORAGE CHAMBER OF COMMERCE
WISHES TO GO ON RECORD IN SUPPORT OF A ROYALTY GAS CONTRACT
AND RESPECTFULLY URGES THE LEGISLATURE OF THE STATE OF
ALASKA TO EXPEDITIOUSLY APPROVE SUCH A CONTRACT BASED ON
TERMS WHICH PROVIDE THE GREATEST ADVANTAGES TO THE CITIZENS
OF ALASKA.

ROBERT L HARDICK PRESIDENT THE ANCHORAGE CHAMBER OF COMMERCE

AGO 800720

TELEGRAM

21-d

HCA ALASKA COMMUNICATIONS, INC.
PHONE: 586-6440
JUNEAU, ALASKA 99901

#

02093 NL ANCHORAGE ALASKA 01-27 600P AST

PMS SEN JOHN RADER DEL

JUN 1214

REF HEARINGS ON SALE OF ROYALTY GAS PERIOD
BENEFITS TO OUR STATE AND ITS CITIZENS INHERENT IN
THE TRANS-ALASKA ROUTE FOR NATURAL GAS
WANTS YOUR SUPPORTS OF THE SALES CONTRACT FOR
ROYALTY GAS NOT NEEDED IN ALASKA AND WHICH
CONTRACTS ARE NOW UNDER CONSIDERATION PERIOD EARLY
LEGISLATIVE APPROVAL WILL DEMONSTRATE SOLID SUPPORT
OF ALASKANS FOR TRANS-ALASKA GAS PROJECT PERIOD IT WILL
ALSO INSURE THAT TENNECO AND SOUTHERN NATURAL
WILL JOIN EL PASO IN THE ALL OUT NATIONAL
CAMPAIGN TO OBTAIN CERTIFICATE TO AUTHORIZE
THE ALL AMERICAN GAS TRANSPORT SYSTEM PERIOD
AL SWALLING POUCH 7012 ANCHORAGE ALASKA 99512

377 JAN 27 PM 9 10

21-e

04106 SANFRANCISCO CA 115 01-27 345P PST
PMS THE HONORABLE JOHN RADER
SENATE PRESIDENT 1145
ALASKAN STATE LEGISLATURE
POUCH V
JUNEAU AK 99811

DEAR SENATOR RADER :

THANK YOU FOR INVITING MY COMMENTS
REGARDING PRUDHOE BAY ROYALTY SALES AGREEMENTS.
AS IT IS NOT POSSIBLE FOR ME TO ATTEND THE
HEARINGS BEGINNING JANUARY 31, I WOULD APPRECIATE
YOUR CONSIDERATION OF THIS SHORT WRITTEN COMMENT:
PACIFIC GAS AND ELECTRIC COMPANY URGES THE SPECIAL
SENATE COMMITTEE TO CONSIDER PROVIDING THAT, IF
THE FPC, THE PRESIDENT AND CONGRESS SHOULD SELECT
A PROJECT OTHER THAN THE EL PASO TRANSALASKA PROJECT
TO MOVE PRUDHOE BAY GAS TO THE LOWER 48 STATES, THE
PRESENTLY PROPOSED GAS SALES AGREEMENTS WOULD
TERMINATE AND THE STATE WOULD THEN BE FREE TO
NEGOTIATE ALSO WITH COMPANIES WHO ARE CURRENTLY SUPPORTING
ONE OF THE OTHER PROJECTS.

THANK YOU FOR YOUR KIND INVITATION.

BEST REGARDS,

JOHN A SPROUL

SENIOR VICE PRESIDENT

AGO 800722

2-022216E030 01/30/77 ICS IPMRNCZ CSP AHGB
9163223690 MGM TDRN SACRAMENTO CA 542 01-30 0740P EST

EXHIBIT # 21-f

HONORABLE JOHN RADER
SENATE PRESIDENT
ALASKA STATE STATE LEGISLATURE
POUCH V
JUNEAU AK 99811

YOUR LETTER TO TONY KLINE, THE GOVERNOR'S LEGAL SECRETARY, HAS BEEN FORWARDED TO ME FOR COMMENT. I URGE THE ALASKAN STATE LEGISLATURE NOT TO APPROVE THE GAS ROYALTY SALES AGREEMENTS BETWEEN THE STATE OF ALASKA AND THREE FIRMS. CALIFORNIA CAN NOT AFFORD TO RELY ON LIQUEFIED NATURAL GAS (LMG AND EL PASO PROJECT FOR OVER NINETY PERCENT OF THE STATE'S GAS SUPPLY LMG DELIVERY TECHNOLOGY IS PROVEN FOR SMALE SCALE DELIVERIES BUT NOT FOR THE LARGE SCALE (GREATER THAN 3.2 BCF/DAY) DELIVERIES PROPOSED FOR CALIFORNIA.

IF THE ONE LMG TERMINAL CALIFORNIA IS LIKELY TO PROVE OR TO BE TEMPORARILY CLOSED DOWN DUE TO AN EQUIPMENT MALFUNCTION, TRESSLE DAMAGE OR EARTHQUAKE, THE STATE OF CALIFORNIA COULD FACE MAJOR DISRUPTIONS IN ITS GAS SUPPLY DELIVERY SYSTEM. THE POTENTIAL DISRUPTIONS ARE DISCRIBED IN THE RESOURCE PLANNING ASSOCIATES STUDY BEING SENT UNDER SEPARATE COVER.

FOR THIS AND OTHER REASONS CALIFORNIA SUPPORTS AN OVERLAND PIPELINE DELIVERY SYSTEM FOR NORTH SLOPE NATURAL GAS WITH A DIRECT DELIVERY SYSTEM TO THE WEST COAST. A COPY OF THE ENERGY COMMISSION POLICY RESOLUTION AND PUC BRIEF WILL ALSO BE SENT UNDER SEPARATE COVER.

THERE IS ALSO STRONG EVIDENCE TO SUGGEST THAT OVERLAND PIPELINE SYSTEM WOULD YIELD MUCH LOWER TRANSPORTATION COSTS TO THE CUSTOMERS AND HENCE MUCH HIGHER NATURAL GAS ROYALTIES FOR THE STATE OF ALASKA AND HIGHER WELLHEAD VALUES FOR NORTH SLOPE PRODUCERS.

WE THEREFORE URGE YOU TO CONSIDER THE VALUE OF THE HIGHER WELLHEAD PRICE TO THE STATE AGAINST THE VALUE OF A LIQUEFACTION TERMINAL.

CALIFORNIA OFFICIALS ARE SENSITIVE TO ALASKA'S WISH TO PROVIDE ITS CITIZENS WITH JOBS AND ECONOMIC DEVELOPMENT OPPORTUNITIES. ARRANGEMENTS OF THE OVERLAND PIPELINE PROPOSALS TO BE ESTABLISHED THAT WOULD NOT DEPRIVE SOUTHERN ALASKA FROM SUPPLIES OF NATURAL GAS. THE ALCAN HIGHWAY PROPOSAL WILL DELIVER GAS TO SOUTHERN PARTS OF ALASKA AND COULD PROVIDE THE SAME VOLUME OF GAS AND DEVELOPMENT OPPORTUNITIES AS EL PASO'S PROPOSAL. ARCTIC GASES PROPOSAL COULD ALSO BE PERMITTED IN A MANNER TO ENSURE DELIVERIES OF GAS TO SOUTH ALASKA IN QUANTITIES SUFFICIENT FOR ECONOMIC DEVELOPMENT. THIS COULD BE ACCOMPLISHED BY REQUIRING THAT NORTH SLOPE GAS PRODUCERS PURCHASE OR EXCHANGE SOUTH ALASKAN NATURAL

AGO 800723

PAGE 2

REA Mailgram®



21.f.1

GAS WHICH WOULD REMAIN IN SOUTH ALASKA IN EXCHANGE FOR NORTH SLOPE ROYALTY GAS. THE RESULTANT TRANSPORTATION COST SAVINGS WOULD BENEFIT ALL PARTIES.

THERE IS ONE OTHER IMPORTANT FACTOR THE ALASKAN LEGISLATURE SHOULD CONSIDER BEFORE APPROVING THE PROPOSED ROYALTY SALES AGREEMENTS. THE CALIFORNIA LEGISLATURE MAY CONSIDER THE ESTABLISHMENT OF A CALIFORNIA STATE GAS PURCHASING AUTHORITY WHICH WOULD ENABLE CALIFORNIA TO PURCHASE ALASKA'S ROYALTY GAS DIRECTLY WITHOUT FEDERAL POWER COMMISSION APPROVAL OR PRICE REGULATION. THE POSSIBILITIES AS ALASKA BENEFITING FROM THIS ARRANGEMENT (THROUGH HIGHER ROYALTIES) AND OF CALIFORNIA ESTABLISHING SUCH AN AUTHORITY SIGNIFICANTLY DIMINISH AS THE STATE OF ALASKA AND OTHER NORTH SLOPE PRODUCERS SIGN THESE "OPEN ENDED/UNKNOWN PRICE" CONTRACTS.

THE ENERGY FUTURES OF THE STATE OF CALIFORNIA AND ALASKA ARE INTIMATELY TIED TO ONE ANOTHER WITH REGARD TO OIL AS WELL AS GAS. WE ARE GRATEFUL FOR THE OPPORTUNITY TO RESPOND TO YOUR INQUIRY AND LOOK FORWARD TO SPIRIT OF CONTINUING COOPERATION.

PLEASE ENTER THIS MAILGRAM AND MATERIALS BEING SEND UNDER SEPARATE COVER INTO THE OFFICIAL RECORDS OF YOUR PROCEEDINGS.

RICHARD L MAULLIN CHAIRMAN
CALIFORNIA STATE ENERGY COMMISSION
1111 HOWE AVE
SACRAMENTO CA 95825

1947 EST

MGMCOMP MGM

AGO 800724



Greater Fairbanks

CHAMBER OF COMMERCE

Member

550 First Avenue

U. S. Chamber of Commerce
Alaska State Chamber of Commerce
Pacific Northwest Trade Ass'n.
National Better Business Bureau

EXHIBIT 21-9

January 24, 1977

Dear

At the regular scheduled meeting of January 24, the Board of Directors of the Greater Fairbanks Chamber of Commerce unanimously supported the Governor's proposal for the sale of the state's royalty gas.

We urge you to support the Governor's proposal as written and ratify it as soon as possible as to avoid delay in the pipeline route decision.

In the future we hope that you would consider a gas separation plant in the Fairbanks area.

Sincerely,

Mrs. Jeanne Wilson
President

JW/sh

Exhibit 21-h



GEORGE W. EASLEY COMPANY

1577 C STREET • SUITE 105 • ANCHORAGE, ALASKA 99501 • DIAL 907/276-7915

January 31, 1977

Honorable John Rader
President of the Senate
Alaska State Legislature
Pouch V
Juneau, AK 99811

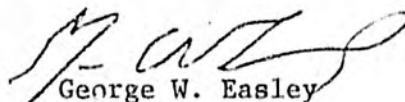
Dear Senator Rader:

Thank you for your kind invitation to participate in the hearings before the Special Senate Royalty Gas Review Committee.

I have had the opportunity to review the proposed contracts and I had looked forward to offering testimony relating to them. Unfortunately, the press of business necessitates that I remain in Anchorage at the time hearings will be held in Juneau.

It would be appreciated, however, if you would record my recommendation for swift approval of the proposed contracts.

Very truly yours,


George W. Easley
President

GWE:vmd

21-i

TELEGRAM

#

BCA ALASKA COMMUNICATIONS, INC.

PHONE: 536-6440

JUNEAU, ALASKA 99901 1977 FEB 2 AM 10 32

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ICS IPMBNGZ CSP

3135352099 TDBN DETROIT MI 23 02-02 1243P EST

PMS SENATOR JOHN L RADER ALASKAN STATE LEGISLATURE, DLR

050
JUNO AK 99311

THIS IS FROM JAMES T JEFFERSON ENTERPRISES INCORPORATED 14864

MMENDOTA DETROIT MICHIGAN 48233 3135352099 YES I ADVOCATE THE SALE
OF GAS AND OIL MY COMPANY WANTS A PORTION

JAMES T JEFFERSON

1244 EST

IPMAFUA AHG

OFFICE OF THE GOVERNOR

Exhibit 22

Honorable Jay S. Hammond
Governor
State of Alaska
Pouch A
Juneau, Alaska 99811

Frances A. Ulmer
Legislative Assistant
Office of the Governor
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Juneau, Alaska 99811

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United States Senate
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Washington, D.C. 20510

Honorable Mike Gravel
United States Senate
3317 Dirksen Senate Office Bldg.
Washington, D.C. 30510

Honorable Donald E. Young
House of Representatives
1210 Longworth House Office Building
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AGO 800739

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Mayor - Municipality of Anchorage
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Anchorage, Alaska 99510

22.13

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Mayor - Fairbanks North Star Borough
P.O. Box 1267
Fairbanks, Alaska 99707

Honorable Donald E. Gilman
Mayor - Kenai Peninsula Borough
P.O. Box 850
Soldotna, Alaska 99669

Honorable Ronald L. Larson
Mayor - Matanuska-Susitna Borough
Box B
Palmer, Alaska 99645

Honorable Eben Hopson, Sr.
Mayor - North Slope Borough
Box 546
Barrow, Alaska 99723

Honorable James A. Poor
Mayor - City of Cordova
PO Box 1210
Cordova, Alaska 99574

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SPECIAL COMMITTEE ON
THE SALE OF
ROYALTY GAS

(907) 465-3873

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 REP. C. V. CHATTERTON
 REP. JOE L. HAYES
 REP. JOSEPH H. MCKINNON
 REP. CHARLES H. PARR

House of Representatives

Joint Hearings with the Senate Committee to Consider
 the Sale of Royalty Gas January 31, 1977 - February 7, 1977

Invitations to testify:

I. Newspaper Advertisements (copy attached)

Anchorage Daily News	1/28/77 - 1/29/77
Anchorage Times	1/28/77 - 1/29/77
Fairbanks Daily News-Miner	1/27/77 - 1/28/77

II. Invitations by mail or telephone:

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 Fairbanks, Alaska 99701

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Joint Hearings of the
House Special Committee on the Sale of Royalty Gas
Senate Special Committee to Consider the Sale of Royalty Gas

January 31, 1977 - February 7, 1977

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Exhibit 24

ROYALTY GAS SALE HEARINGS

Joint legislative hearings to consider the sale of Alaska Royalty Gas will be held in Juneau, Jan. 31st and Feb. 1st and 2nd. Copies of the proposed Royalty Gas Sales Agreements with Penneco - Alaska, Southern Natural Gas and El Paso Natural Gas are available at the legislative information office 6th and K street. Persons wishing to testify should call 465-3873 to schedule testimony, written testimony may be sent to:

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REP. CLARK GRUENING
Pouch V. Juneau, Ak. 99811

SENATE GAS SALE COMMITTEE
SEN. JOHN RADER
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Anchorage Daily News 1/29/77

Exhibit 25

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ANALYSIS OF PRUDHOE BAY
ROYALTY NATURAL GAS DEMAND
and
THE PROPOSED PRUDHOE BAY
ROYALTY NATURAL GAS SALE

BY

Kristina M. O'Connor
and
Patrick L. Dobey

January 1977

A Study for the Alaska Royalty Oil
and Gas Development Advisory Board

Chairman
Guy Martin, Commissioner
Department of Natural Resources

Executive Director
Donald Wold

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Introduction and Summary

It is probable that Prudhoe Bay's vast natural gas supplies will begin to flow southward in 1982. Alaskans believe that an all-Alaskan gas pipeline is the only satisfactory transportation method for this gas with the availability of the gas for in-state use being a major consideration. A sale of Royalty gas has been proposed that offers the opportunity to use Prudhoe Royalty gas in the state. This analysis considers the implications of that sale. Previous state-wide natural gas demand studies have shown that the Cook Inlet area can be satisfied by existing commitments and other energy supplies. There is a good probability commercial, residential and light industrial use of the royalty gas along the Alaskan natural gas corridor will occur. We have compared this corridor use against the gas take-back provisions of the proposed gas sales contract. Results indicate that the proposed contract will satisfy potential in-state gas volumes required, and that sufficient flexibility is allowed to provide natural gas supplies when needed.

Previous reports by the Department of Natural Resources have been used as the basis for this study. A reference list is included on the last page of this report, and it is suggested that detailed questions on natural gas demand be answered by consulting these previous studies, especially the report entitled "Projected Alaskan Royalty Gas Production and its Relationship to Projected Natural Gas Demand" by P.L. Dobey, et al.

ANALYSIS AND RESULTS

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The three key factors in this analysis are the amount of royalty Natural Gas available through the pipeline, the estimated demand for Royalty Gas in Alaska and the contractual procedures for recalling the Royalty natural gas needed for in state use. A discussion of these factors follows.

Royalty Gas Supply

Neither the preliminary nor final rates of gas production from Prudhoe Bay have been set by the State. The figures included in these contracts do not offset the setting of those rates, but are based for the purposes of the sales, on reasonable expectations of what those rates might be. The initial rates will be set by State law prior to gas production, and readjusted as necessary based on production history. Buyers under these contracts will simply have to accept whatever rates are set, but for purposes of putting a ceiling on the commitment, some assumptions were agreed upon.

The agreed assumptions include an initial rate of 2.0 B.C.F./day increasing over a period of time to 3.2 B.C.F./day. Commitment of a maximum total of 2.6 trillion cubic feet for these contracts equals an average gross sales rate of 2.85 billion cubic feet per day over 20 years. It also represents the maximum royalty gas available from 20.8 trillion cubic feet of the total reserve. The State estimates the total reserve slightly higher than industry. Its figure for the

25.4

Prudhoe Oil Pool reserve in the sale area is 31.2 trillion cubic feet with a royalty reserve in the sale area of approximately 3.9 trillion cubic feet. Thus although 100% of our royalty production is committed for 20 years, it represents only about 66 percent of the State's total royalty gas reserve. If the penalty section in the contract ever becomes operative, the penalty gas would come from this reserve or from other gas on the North Slope not yet in production and not directly committed to this contract.

The estimates on reservoir performance are based on no production history. The degree of accuracy under these conditions is low and provision must be made for actual production data which might require changes in rates for optimum recoveries. The 2.85 B.C.F. average is thought to be a reasonable maximum based on what is known now and one which will permit some flexibility in case of error. It was arrived at by assuming a maximum rate of 2 B.C.F. for a period of five years and a rate of 3.2 B.C.F./day for the remaining 15 years of the contract. This would assume that five years of sales would be necessary to reasonably establish the best way to operate the reservoir ultimately and that these data indicate a higher rate can be justified by performance data. For the purpose of this analysis we have chosen 2.0 B.C.F. per day as a likely and conservative actual pipeline thruput.

Demand for Natural Gas

Demand is defined in the report as that amount of natural gas necessary

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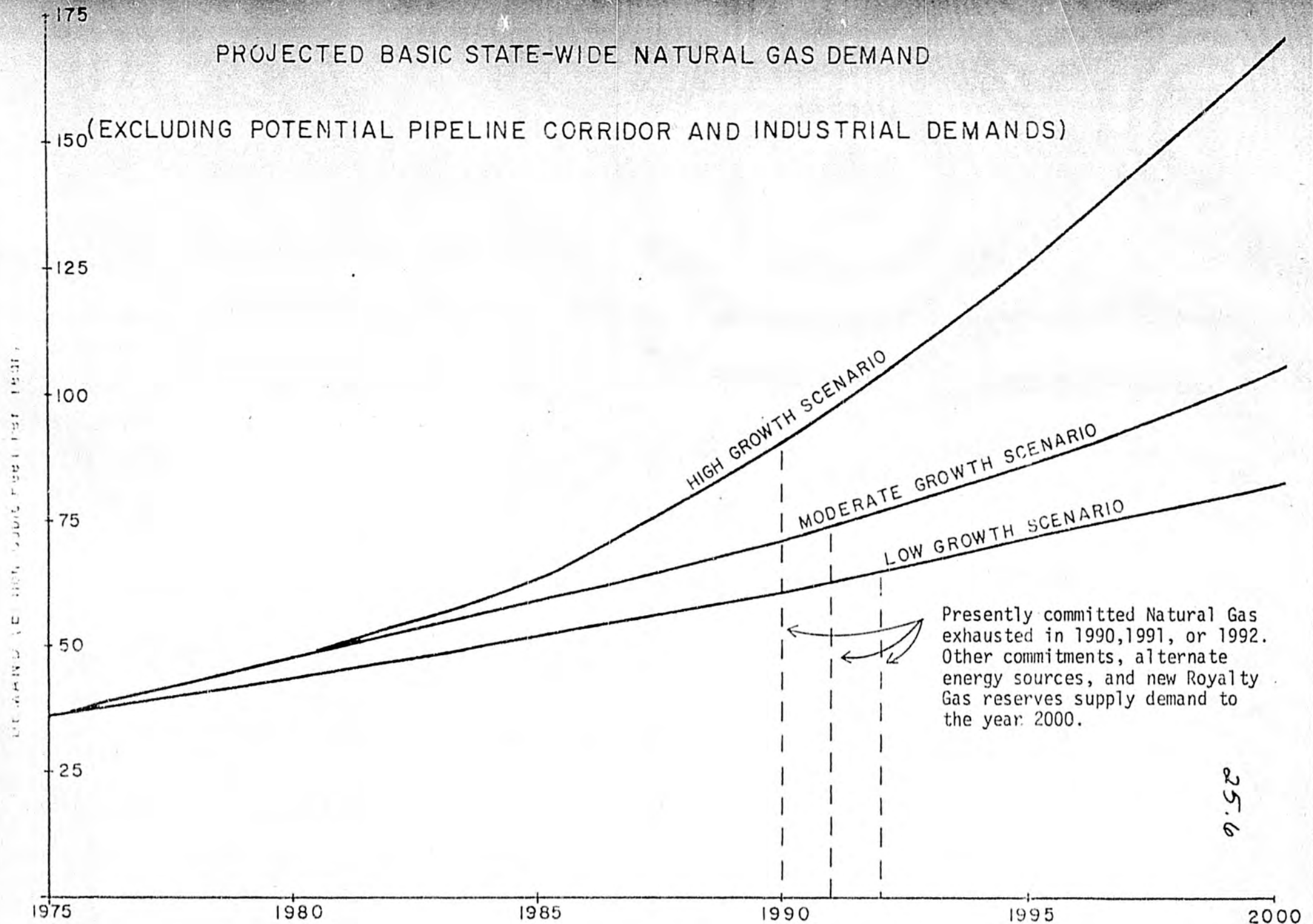
to provide the residential-commercial needs of the State. Basic demand relies only upon population growth and does not include potential demand resulting from the Alaskan gas pipeline corridor or industrial uses. Current natural gas consumption, upon which the basic demand is projected, occurs almost exclusively in the Upper Cook Inlet area and is supplied by the Upper Cook Inlet gas fields.

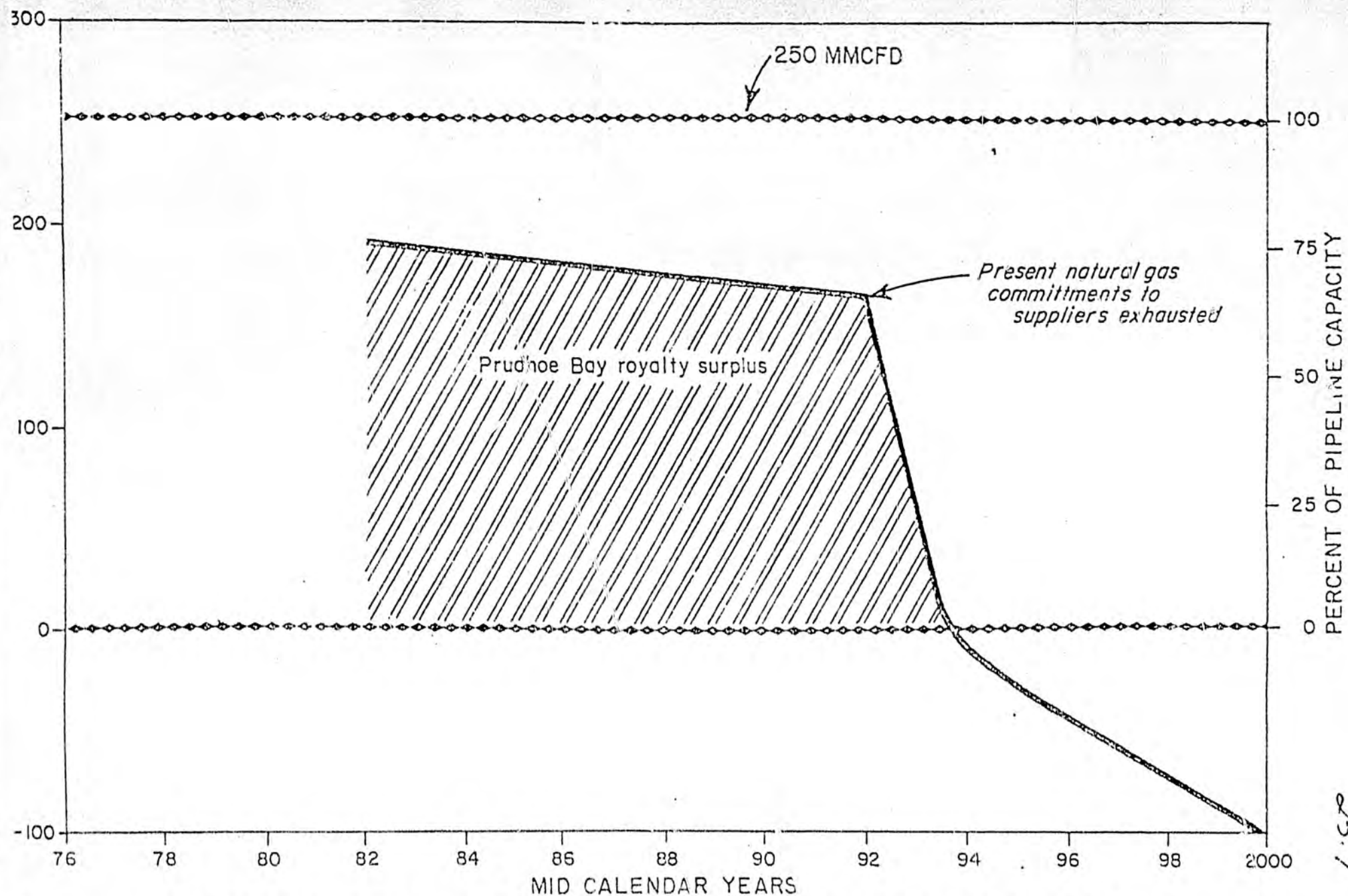
Low, moderate, and high growth scenarios were used to predict future basic demand. The most likely state-wide demand curve from each scenario is shown on Figure 1. Presently committed non-royalty natural gas assures a plentiful energy supply until the year 1992, 1991, and 1990 using the low, moderate and high growth scenarios, respectively. Alternative energy sources, such as coal and hydroelectric power, can supply up to about 70% of that demand, and other commitments and new royalty gas reserves can supply the remaining 30%. This is illustrated on Figure 2, which shows the effects of alternative energy sources and potential industrial consumption upon the most likely moderate growth scenario.

It has also been assumed in this report that the corridor demand will be met from Prudhoe Bay Pipeline Royalty gas, a very conservative assumption, since other supplies of gas may be available. We selected 1982 as a probable time for the beginning of Prudhoe Bay Natural gas production.

PROJECTED BASIC STATE-WIDE NATURAL GAS DEMAND

(EXCLUDING POTENTIAL PIPELINE CORRIDOR AND INDUSTRIAL DEMANDS)

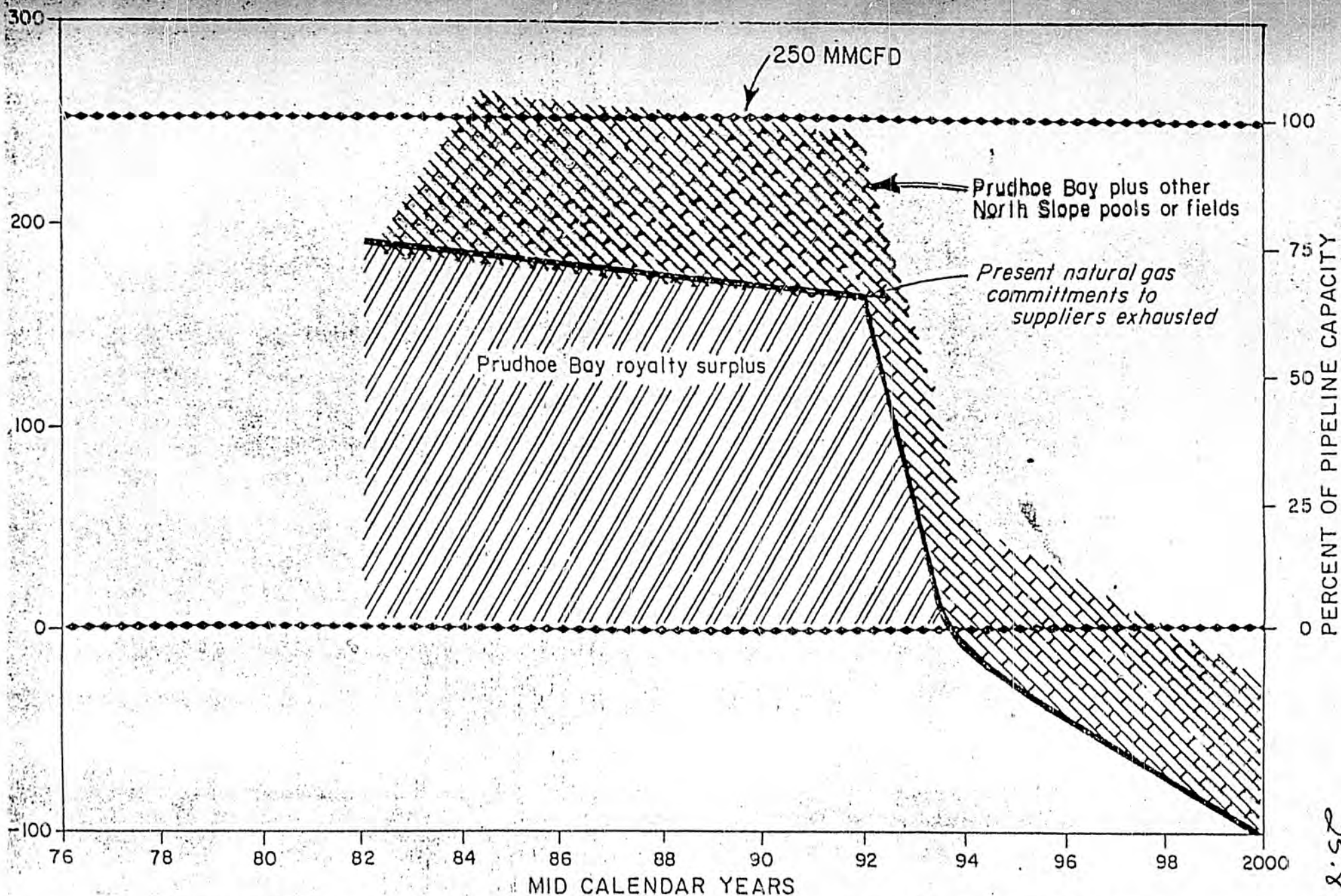




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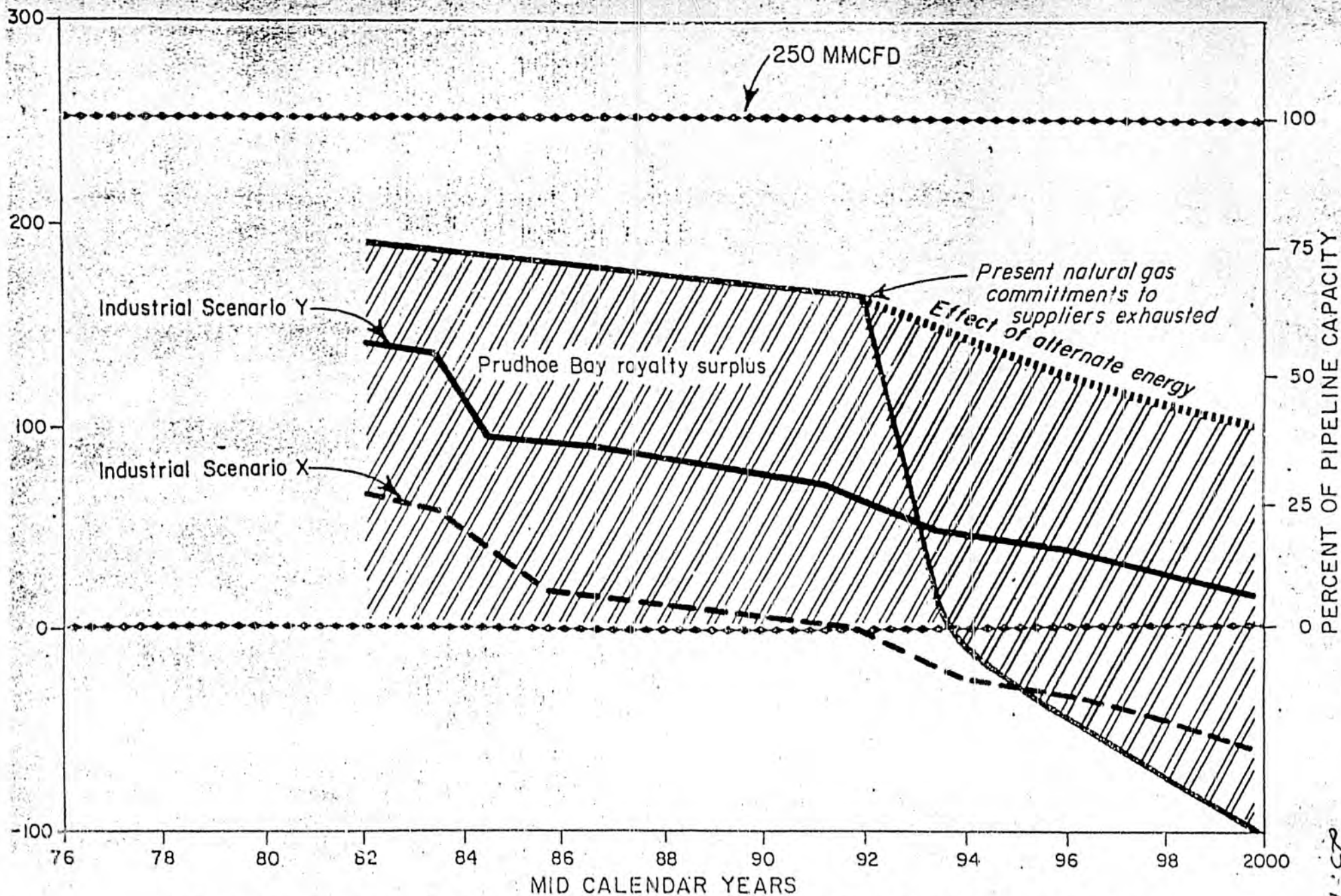
PRUDHOE BAY ROYALTY GAS AVERAGE DAILY SURPLUS
MOST LIKELY CASE AT 2.0 BCF/DAY PIPELINE THRUPUT

FIGURE 2



PRUDHOE BAY ROYALTY GAS AVERAGE DAILY SURPLUS
MOST LIKELY CASE AT 2.0 BCF/DAY PIPELINE THRUPUT

FIGURE 2



PRUDHOE BAY ROYALTY GAS AVERAGE DAILY SURPLUS
MOST LIKELY CASE AT 2.0 BCF/DAY PIPELINE THRUPUT

FIGURE 2

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Royalty Gas Sales Agreement

To protect the State's interest and provide the flexibility which may be needed to adjust the amount of gas surplus to State needs to meet changing conditions, there is a provision in the gas sales agreement for the State to recall a specified amount of its gas on the date of initial delivery and percentage increases at five year intervals. These percentages may be changed upon 24 months prior written notice. During each 5 year period the amount of gas recalled can be changed up to the total percentage allowed for that period upon 12 months prior written notice. The State will make the judgement of the amount of gas to be recalled based upon the in-state uses which develop and an on-going analysis of future requirements. We have assumed only residential, commercial and light industrial requirements, but using moderate projections, there should be surplus capacity for heavy industrial uses, also.

It is our belief that this provision affords ample protection to possible future gas users in the State. For example, assume that someone wants to build an Ammonia-Urea Plant requiring 60 million cubic feet of gas per day. Design, permits and construction of such a plant will require 3 to 4 years before gas delivery to the plant. This time lag gives ample time for the State's recall provision to be put into effect. Similarly, the decision to install a gas-fired turbine generator in a town along the pipeline, will require 18 months to 30 months from date of order to date of startup. The volume of gas (about 10 MMCFD)

25.11

necessary to operate this generator would be accommodated by the 12 months notice period of the recall provision. An on-going demand analysis will insure that timely and appropriate take-back notice is given and that proper amounts of natural gas are available. The Division of Minerals and Energy Management will carry this responsibility.

Figure 3 illustrates the low, moderate and high growth residential-commercial corridor demands with the maximum take-back steps described in the Sales Agreement. The hatched area represents the gas which can be taken back under the terms of the contract and which is in excess of projected demand. All of the hatched area above the low scenario curve is the surplus obtained by recalling the maximum percentages, 25%, 50%, 75% and 100%, in each progressive five-year increment. Note that the high growth scenario still falls within the take-back surplus area, and the margin of "safety" appears to increase with time.

Table 1, "Pipeline Corridor Demand and possible take-back steps," summarizes the results of this analysis. Assuming a thruput of two billion cubic feet of natural gas per day, the 25%, 50%, 75% and 100% take-back steps are shown with the corresponding quantities of Royalty gas taken back for in-state use. The low, medium, and high natural gas demand scenarios are shown in billions of cubic feet of gas needed per year. This projected gas demand is then listed as a percent of the total royalty production and as a percent of the maximum allowable take-back during a five year period. In all cases at least 6% of the total royalty gas production may be required by the pipeline corridor

PROJECTED ALASKAN PIPELINE CORRIDOR DEMAND
FOR PRUDHOE BAY NATURAL GAS AND MAXIMUM TAKE-BACK STEPS

 SURPLUS

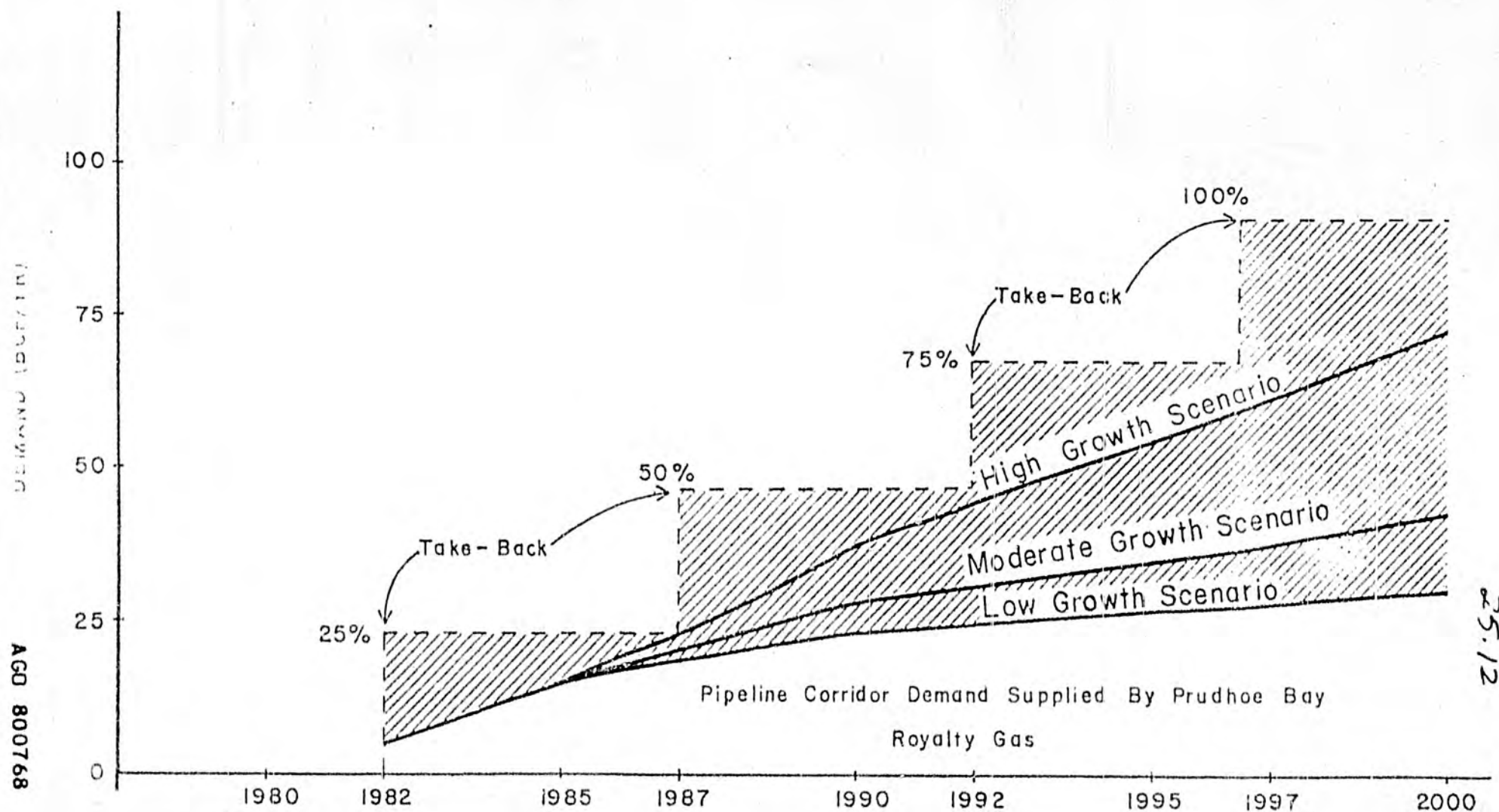


FIGURE 3

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consumers in the first year of the contract. This is about 22% of the allowed amount which is 25% of royalty production. The maximum amount of take-back required occurs in the year 2000 of the high growth scenario. At this time about 80% of the royalty production may be necessary to meet corridor demand. The greatest percent of take-back (about 91%) may occur in the year 1996 of the high scenario.

Total pipeline corridor demand for Royalty gas may range from zero to 740.2 billion cubic feet compared with take-back privileges which could total over one trillion cubic feet under the terms of the contract.

The important result of this analysis is that the flexibility built into the proposed gas contract should be adequate to handle our anticipated future needs. Actual natural gas use will vary considerably with time and circumstances, but a reasonable monitoring program can assure the availability of supplies at the appropriate time.

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25.14

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Klein, R.M.; and O'Connor, K.M., 1975, An evaluation of energy alternatives, Alaska and the Western United States and review of EIS 74-90, Section F (Energy Alternatives): State of Alaska, Div. of Geol. and Geoph. Surveys, February 1975, AOF 75.

§ 38.05.182

PUBLIC LANDS

§ 38.05.183

(s) *Short title.* This section may be cited as the Geothermal Resources Act.

(am §§ 40, 41 ch 127 SLA 1974)

Effect of amendment.

The 1974 amendment substituted "AS 41.08.020" for "AS 41.07.020" near the middle of subsection (b) (1) and "AS 41.08.040" for "AS 41.07.040" at the end of subsection (b) (2) and deleted "of 1971" from the end of subsection (s).

As the rest of the section was not affected by the amendment, it is not set out.

Legislative committee report.

For report on ch. 127, SLA 1974 (SCSHB 817 am S), see 1974 House Journal, p. 657.

Sec. 38.05.182. Royalty on natural resources. Any royalty provided for in §§ 135 — 181 of this chapter may be taken in kind rather than in money if the commissioner, with the consent of the Alaska Royalty Oil and Gas Development Advisory Board, determines that the taking in kind would be in the best interest of the state. The consent of the board is required only with respect to oil and gas royalty-in-kind under § 183 of this chapter. (§ 1 ch 56 SLA 1970; am § 7 ch 71 SLA 1971; am § 1 ch 9 SSSLA 1974; am § 5 ch 218 SLA 1976)

Effect of amendments. — The 1974 amendment substituted "if the commissioner, with the consent of the board, determines" for "at the discretion of the commissioner if he determines" near the middle of the first sentence and added the second sentence.

The 1976 amendment substituted "Alaska Royalty Oil and Gas Development Advisory Board" for "board" in the first sentence.

Sec. 38.05.183. Sale of royalty. (a) The sale, exchange or other disposal of a mineral obtained by the state as a royalty under § 182 of this chapter, or the sale, exchange or other disposal in whole or in part of a right to receive future mineral production under a state lease under this chapter, shall be by competitive bid and the sale, exchange or other disposal made to the highest responsible bidder, except that competitive bidding is not required when the commissioner, with the prior written approval of the Alaska Royalty Oil and Gas Development Advisory Board where applicable, determines that the best interest of the state does not require it or that no competition exists.

(b) When competitive bids are required, the commissioner, with the prior written approval of the Alaska Royalty Oil and Gas Development Advisory Board, may reject all bids if he determines that because of the amount of the bids, the lack of responsibility on the part of the bidders, or for reasons consistent with the criteria set out in AS 38.06.070, the acceptance of the bids would not be in the best interest of the state.

(c) If the commissioner determines that a sale, exchange or other disposal of a mineral obtained by the state as a royalty under § 182 of this chapter or of a right to receive future mineral production under a state lease under this chapter shall be made otherwise than by

competitive bid, and the Alaska Royalty Oil and Gas Development Advisory Board where applicable has approved that determination, the commissioner shall make public in writing the specific findings and conclusions upon which that determination is based.

(d) Oil or gas taken in kind by the state as its royalty share may not be sold or otherwise disposed of for export from the state until the commissioner with the approval of the Alaska Royalty Oil and Gas Development Advisory Board determines that the royalty-in-kind oil or gas is surplus to the present and projected intrastate domestic and industrial needs. The commissioner shall make public, in writing, the specific findings and reasons on which his determination is based and shall, within 10 days of the convening of a regular session of the legislature, submit a report showing the immediate and long-range domestic and industrial needs of the state for oil and gas and an analysis of how these needs are to be met. (§ 1 ch 56 SLA 1970; am § 3 ch 9 SSSLA 1974)

Effect of amendment. — The 1974 amendment rewrote this section.

~~Sec. 38.05.184. Limitation on oil and gas leases in certain areas, and reacquisition of leases. (a) The legislature finds that Kachemak Bay is an area of extraordinary abundance and diversity of marine life that has provided, and will continue to provide in the future, a basis for one of the state's most important commercial fisheries; that recent information discloses that even minute quantities of oil released into the marine environment may be harmful to the larval forms of crabs and other marine life and that the existence of gyral currents within the bay may increase the likelihood of oil coming into contact with these valuable commercial fish and shellfish species; and that therefore oil and gas development in the bay, at this time, presents an undue hazard to this valuable state renewable resource.~~

~~(b) No additional oil or gas leases may be issued by the Department of Natural Resources or any other state agency for the exploration for or the development or production of oil and gas on state-owned land and waters seaward of the mean higher high water line, beginning at Anchor Point; then around the perimeter of Kachemak Bay, to Point Pogibshi; then west to the three mile limit of state land and waters; then north to a point three miles west of Anchor Point; then east to the mean higher high water line of Anchor Point, the point of beginning.~~

~~(c) The commissioner of natural resources may enter into negotiations to reacquire by purchase in the name of the state, title to or accountable interests in oil or gas leases within the boundaries described in (b) of this section which were issued before June 4, 1976.~~

~~(d) In lieu of cash payment for a negotiated purchase of a leasehold interest, the commissioner may authorize a credit of the purchase price plus interest at the rate prescribed by AS 09.30.070 to be granted the~~

public interest, or migration and spawning of fish in which there is a public interest.

(am § 4 ch 117 SLA 1976)

Effect of amendment. — The 1976 amendment added paragraphs (22) and (23).

As the rest of the section was not affected by the amendment, it is not set out.

Editor's note. — Section 1, ch. 117, SLA 1976, provides: "It is the intent of this Act to implement the provisions of art. VIII,

sec. 14, Alaska State Constitution, relating to access to the navigable or public waters of the state."

Applied in *Moore v. State*, Sup. Ct. Op. No. 1284 (File Nos. 2551, 2587), 553 P.2d 8 (1976).

Chapter 06. Alaska Royalty Oil and Gas Development Advisory Board.

Section

10. Purpose

20. Establishment

25. Membership

30. Compensation; per diem, travel expenses

35. Meetings, rules, quorum, votes required; conflict of interest

Section

40. Powers

50. Board approval required

55. Action by legislature

60. Confidentiality

70. Criteria

80. Definitions

Sec. 38.06.010. Purpose. It is the purpose of this chapter to facilitate the wise development of Alaska's oil and gas royalty interests by providing means and procedures for sales, exchanges or other disposition of those interests in ways calculated to promote private economic growth consistent with applicable environmental standards and public fiscal stability, and in accordance with AS 38.05.183. (§ 2 ch 9 SSSLA 1974)

Sec. 38.06.020. Establishment. There is established in the Department of Natural Resources the Alaska Royalty Oil and Gas Development Advisory Board. (§ 2 ch 9 SSSLA 1974)

Sec. 38.06.025. Membership. The board consists of the commissioner of natural resources, who is chairman, the commissioner of revenue, and three public members. Each of the public members shall possess experience in petroleum-related fields in such areas as exploration, development, production and economics, and shall be appointed by the governor to serve at his pleasure for three-year staggered terms and confirmed by a vote of a majority of the members of the legislature in joint session. The public members may not be state officers or employees. A public member, upon the expiration of his term, shall continue to hold office until his successor is appointed and qualifies. Vacancies in public membership shall be filled in the same manner as original appointment. An appointee to fill a vacancy shall hold office for the balance of the term for which his predecessor on the board was appointed. A vacancy in board membership does not impair the authority of a quorum of the board members to exercise all the powers and duties of the board. (§ 2 ch 9 SSSLA 1974; am § 8 ch 207 SLA 1975)